

Message Text

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C O R R E C T E D C O P Y (TEXT- PARA 1)

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: DRAFT FEDERAL BUDGET FOR 1974: CABINET DECISION

REF: BONN A-398

1. FOLLOWING A CABINET DECISION OF SEPTEMBER 5, THE FRG TODAY RELEASED DETAILS OF THE DRAFT FEDERAL BUDGET FOR 1974. THE DRAFT CALLS FOR TOTAL EXPENDITURES OF DM 134.4 BILLION, WHICH WOULD BE 10.5 PERCENT ABOVE THE APPROVED 1973 BUDGET. THE 10.5 PERCENT FIGURE IS ALSO THE GOVERNMENT'S CURRENT FORECAST FOR NOMINAL INCREASE OF GNP IN 1974 SO, ACCORDING TO MINISTER SCHMIDT, THE BUDGET WILL HAVE A NEUTRAL IMPACT ON THE BUSINESS CYCLE IN 1974. (HE WENT TO GREAT LENGTHS TO POINT OUT THAT THE MARGINS OF ERROR IN FORECASTING ECONOMIC GROWTH ARE AT THIS TIME EVEN GREATER THAN USUAL.) TOTAL FEDERAL REVENUE, BASED ON THE SAME GNP FORECAST, IS ESTIMATED AT DM 131.9 BILLION. THIS DOES NOT INCLUDE REVENUES FROM THE 10 PER-

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CENT INCOME TAX SURCHARGE AND THE 11 PERCENT INVESTMENT

TAX (SEE REPAIR), WHICH ARE TO BE STERILIZED IN CENTRAL BANK ACCOUNTS. THE DEFICIT OF DM 2.5 BILLION WOULD BE FINANCED BY NEXT BORROWING OF DM 2.3 BILLION AND BY SEIGNIORAGE OF DM 0.2 BILLION.

2. MINISTER SCHMIDT ALSO POINTED OUT THAT THERE ARE STILL A NUMBER OF UNCERTAINTIES IN THE DRAFT BUDGET. THESE INCLUDE:

- COLLECTIVE BARGAINING ON WAGES AND SALARIES IN THE PUBLIC SECTOR;
- NEGOTIATIONS WITH THE U.S. ON OFFSET;
- BARGAINING BETWEEN FEDERAL AND LAENDER GOVERNMENTS ON SHARE OF VALUE ADDED TAX WHICH EACH RECEIVES (EACH ONE PERCENT INCREASE IN THE LAENDER SHARE MEANS A DM 0.6 BILLION INCREASE IN THE FEDERAL DEFICIT);
- DEVELOPMENT OF POLICIES BY THE EEC IN BRUSSELS. (SCHMIDT WAS VERY CAUSTIC CONCERNING FINANCIAL OPERATIONS OF THE EEC WHICH RESULTED IN SEVERAL SUPPLEMENTARY BUDGETS IN 1973, WHICH COST THE FRG DM 0.9 BILLION.)

3. A BREAKDOWN OF SPENDING SHOWS THE FOLLOWING TOTAL AMOUNTS WERE PROPOSED FOR THE MAJOR MINISTRIES FOR 1974 (GROWTH RATES OVER APPROVED 1973 LEVELS IN PARENTHESES)

LABOR	DM 27.4 BILLION	(21.3 PERCENT)
TRANSPORTATION	DM 18.2 BILLION	(8.3 PERCENT)
GENERAL FINANCE	DM 15.5 BILLION	(14.5 PERCENT)
AGRICULTURE	DM 5.3 BILLION	(-2.4 PERCENT)
SCIENCE & EDUCATION	DM 3.8 BILLION	(13.4 PERCENT)
RESEARCH & TECHNOLOGY	DM 3.5 BILLION	(11.4 PERCENT)
CITY PLANNING	DM 3.8 BILLION	(6.6 PERCENT)
DEVELOPMENT AID	DM 3.1 BILLION	(9.4 PERCENT)

4. THE PROPOSED DEFENSE MINISTRY BUDGET FOR 1974 IS DM 27.6 BILLION, INCLUDING OUTLAYS FOR EDIP AND PHANTOM PURCHASES FORMERLY IN THE GENERAL FINANCE BUDGET LIMITED OFFICIAL USE

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SUBTITLE. THE APPROVED 1973 MINISTRY BUDGET COMES TO DM 27.1 BILLION, AFTER ADJUSTMENTS FOR EDIP AND PHANTOMS. THUS, ON FACE VALUE, THE INCREASE IN 1974 OVER 1973 IS ONLY 1.8 PERCENT. HOWEVER, THE 1974 FIGURE NO LONGER INCLUDES VETERANS' BENEFITS (VERSORGUNG). ACCORDING TO THE 1973 "FINANZBERICHT", SUCH BENEFITS WERE BUDGETED AT DM 1.35 BILLION FOR 1973. ADJUSTING THE 1973 LEVELS BY THAT AMOUNT WOULD YIELD A GROWTH

RATE OF 7 PERCENT FOR 1974.
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